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RUEHBO/AMEMBASSY BOGOTA 7756
RUEHLP/AMEMBASSY LA PAZ 2726
RUEHPE/AMEMBASSY LIMA 1002
RUEHQT/AMEMBASSY QUITO 2817
RUCPDOC/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY
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UNCLAS SECTION 01 OF 02 CARACAS 000535

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HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR MMALLOY
COMMERCE FOR 4431/MAC/WH/MCAMERON

E.O. 12958: N/A
TAGS: EAGR ECON PGOV VE
SUBJECT: VENEZUELAN AUTO INDUSTRY STALLS

REF: 2007 CARACAS 2181

¶1. (SBU) Summary: After doubling over the last few years, US auto exports to and production in Venezuela are sharply declining. Venezuelan auto imports, which doubled over the past two years, have consumed a significant portion of Venezuela's dollar holdings. In response, the BRV decided to sharply limit the number of imported cars in 2008. Within Venezuela the Big Three are plagued by labor issues, difficulty in obtaining dollars, and a chronic shortage of car parts. These three issues have led to a near paralysis in Venezuelan auto manufacturing. The BRV made the current situation even more difficult for car manufacturers in Venezuela with October 2007 announcements of unrealistic dual-fuel and local content requirements. End Summary.

BIG THREE TROUBLES WITH EXPORTS, PARTS AND LABOR
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¶2. (SBU) In 2007, 81 percent of the vehicles sold in Venezuela were imported. The BRV set a limit on assembled vehicle imports of approximately 220,000 for 2008. This represents a sharp decline from the 336,400 vehicles imported in 2007. The BRV will limit the US share of imports to only 66,004 vehicles, representing a decline of 48 percent from last year's exports which were valued at USD 1.35 billion. GM's quota was cut almost by 50 percent, Chrysler's by 50 percent and Ford's by 62 percent. The market is already experiencing the effects of the reduced import quota with a drop in overall vehicle sales of 19.7 percent in the first quarter of 2008. Sales of imported vehicles fell 30.9 percent in the same period.

¶3. (SBU) Venezuelan Ford, Chrysler and GM assembly plants can make up only a small portion of reduced vehicle imports with increased local production. Ford and Chrysler can add shifts, and GM has considered expanding its plant, but these measures will take time. At current levels of production, local suppliers already cannot manufacture enough components to enable the assemblers to meet local content requirements. Additionally, difficulties obtaining dollars and uncertainty over the new Venezuelan requirement that every vehicle must be able to use natural gas act as disincentives for increased investment in the Venezuelan market (reftel.)

¶4. (SBU) Labor problems also plague the industry. Ford suffered a strike earlier this year, as did Goodyear. Of the

Big Three, Chrysler has been the most severely affected by parts and labor issues. It sent home most of its workers on March 28, with instructions not to return until mid-May. In a conversation with Chrysler on April 7, they told the Commercial Officer they were operating at very low levels. Ford told the Commercial Section on April 10 that while they were still operating at more or less full capacity, they may have to halt production in May. GM is operating normally for now, but reported they may be forced to halt production by the end of April.

BIG THREE SHORT ON DOLLARS

¶5. (SBU) In 2007, Venezuela's auto industry consumed more foreign exchange than any other sector; this holds true thus far in 2008 as well. Most of the more than 30 car brands sold in Venezuela are imported rather than assembled in-country. Even cars that are assembled in Venezuela are composed mostly of imported components. Most assemblers had trouble meeting Venezuela's 2007 34.6 percent local content requirement as the local parts component industry is limited. Local component manufacturers rely on imported inputs as well and also face issues with obtaining dollars.

¶6. (SBU) The BRV is determined to reduce the foreign exchange drain from the auto industry in order to concentrate on imports of essential products such as food and health care-related items. It has set a limit of USD $3.2 billion for the auto sector for 2008. According to local media, 75 percent of foreign exchange authorizations thus far this year in the auto sector have not been liquidated. CADIVI reportedly owes General Motors approximately $1 billion, Ford $700 million, and Toyota $500 million in dollars it

authorized but has not released.

UNREALISTIC DUAL-FUEL AND LOCAL CONTENT REGULATIONS
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¶7. (SBU) The BRV's new auto decree sets a quota system for sector imports, requires that all vehicles sold in Venezuela be dual-fuel (equipped with natural gas converter kits), and mandates far more stringent local content requirements, including local assembly of motors. The decree was to have taken full effect on January 1, but the dual-fuel requirement was delayed until July 1. Talks between industry and the BRV on implementation of the decree continue.

¶8. (SBU) US assemblers told Embassy officers it will be impossible to meet the local assembly of motors and dual-fuel goals. The BRV won't be prepared for the July 1 dual-fuel deadline either since it is impossible to develop the infrastructure necessary to supply natural gas to the market in such a short period of time. Negotiations currently underway indicate the government will agree to implement the dual-fuel requirement in phases with public and mass transport vehicles converting first. Automakers also believe the goal of local motor assembly by 2010 is unreachable. Meeting the goal would require much more local investment than local parties are capable of and more investment than multi-nationals are prepared to commit to a smaller and unpredictable market like Venezuela's.
DUDDY